NUNAVUT LIQUOR COMMISSION

ANNUAL REPORT 2007 – 2008

TABLE OF CONTENTS

LETTER OF TRANSMITTAL 1

LETTER TO THE MINISTER 2

ORGANIZATIONAL STRUCTURE 3

LIQUOR LICENSING BOARD 4

LIQUOR ENFORCEMENT AND INSPECTIONS 4

ENFORCEMENT AND INSPECTION ACTIVITY REPORT 4

NUNAVUT LIQUOR COMMISSION 5

ORGANIZATIONAL OVERVIEW 5

LIQUOR RETAILING IN THE TERRITORY 5

MANAGEMENT DISCUSSION AND ANALYSIS & UNAUDITED SCHEDULES 9

CONSOLIDATED FINANCIAL STATEMENTS 11

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING 15

AUDITOR'S REPORT 16

Consolidated Balance Sheet 17

Consolidated Statement of Operations and Comprehensive Income 18

Consolidated Statement of Amount Due to the Government of Nunavut 19

Consolidated Statement of Cash Flows 20

Notes to the Consolidated Financial Statements ..... 21 - 29

Schedule of Income and Expenses:

- Nunavut Liquor Commission 30
- Nunavut Liquor Enforcement and Inspections Division 31

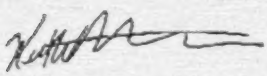
LETTER OF TRANSMITTAL

The Honourable Edna Ekhivalak Elias
Commissioner
Government of Nunavut

Dear Madam,

I have the honour of presenting the Annual Report for the Nunavut Liquor Management covering the period April 1, 2007 to March 31, 2008.

Respectfully submitted,



Hon. Keith Peterson
Minister responsible for Liquor

LETTER TO THE MINISTER

The Honourable Keith Peterson
Minister of Finance

Nunavut Liquor Management 2007 – 2008 Annual Report

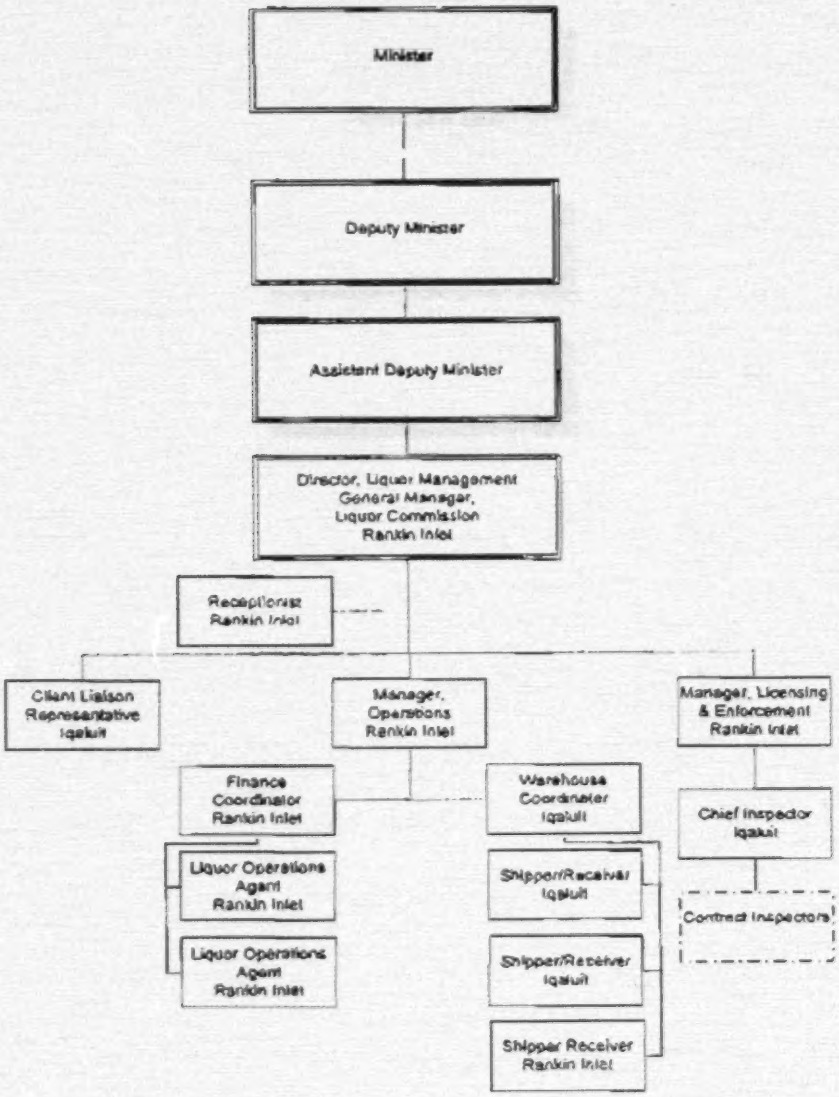
Pursuant to Subsection 9(1) and 61(1) of the Liquor Act, we are pleased to submit the 2007 – 2008 Annual Report for the Nunavut Liquor Management for the fiscal year end March 31, 2008.

We wish to express our thanks to all our staff for all their support and contribution to the progress of the Nunavut Liquor Management during this past year.

Chris D'Arcy
Acting Assistant Deputy Minister
Financial Management

Peter Ma
Deputy Minister of Finance

ORGANIZATIONAL STRUCTURE



LIQUOR LICENSING BOARD

On April 1, 2007, NLC transferred the responsibility of administering the financial affairs of the Nunavut Liquor Licensing Board to the Department of Justice of the Government of Nunavut.

This effectively, eliminated the operations and cash flows of the Nunavut Liquor Licensing Board from the NLC consolidated financial statements.

The Nunavut Liquor Licensing Board did not have any related revenues, assets and liabilities.

LIQUOR ENFORCEMENT AND INSPECTIONS

ENFORCEMENT AND INSPECTION ACTIVITY REPORT

All distribution of liquor products authorized by liquor licenses and special occasion liquor permits issued under the *Nunavut Liquor Act* are liable to inspection by Nunavut Liquor Enforcement. These inspections, also known as spot checks, are to ensure adherence to the *Nunavut Liquor Act* and Regulations. Conditions pertaining to fire risk, health and the use of tobacco in premises licensed for the sale of liquor are also liable to inspection.

Inspections are carried out by trained contract personnel. Any infractions observed are brought to the attention of the Chief Inspector in Iqaluit, who reports to the Manager of Enforcement and Inspections at Liquor Management headquarters in Rankin Inlet.

Serious infractions are discussed with the Department of Justice, and where warranted, the licensee must attend a "show cause" hearing before the Nunavut Liquor Licensing Board, with the Department of Justice acting as prosecutor. Such hearings may result in the imposition of restrictions in accordance with the Nunavut Liquor Act, and could result in the suspension of a license.

Nunavut Liquor Management keeps a roster of four contract inspectors in Iqaluit and another inspector in Rankin Inlet. In 2007-2008, Nunavut Liquor Management spent $39,680 dollars on spot checks, or $9,920 per liquor inspector at a rate of thirty dollars per inspection. The total number of inspections for 2007-2008 was 1,587 or 397 inspection per contractor on average.

NUNAVUT LIQUOR COMMISSION

ORGANIZATIONAL OVERVIEW

The Nunavut Liquor Commission (the Commission) exists by authority of the Minister of Finance, the Minister responsible for Liquor, who delegates to the Commission the duties of operating liquor stores, purchasing, selling, classifying and distributing liquor in Nunavut and administering Part II of the *Nunavut Liquor Act*. The Commission follows the reporting stipulations outlined in Part II of the *Nunavut Liquor Act* and Part IX of the *Financial Administration Act*.

The Commission, in exercising its powers and performing its duties is bound by the *Liquor Act* to the direction of the Minister. The Commission is headed by a General Manager who reports to the Minister through the Assistant Deputy Minister and Deputy Minister of Finance, as shown in the Organizational Structure Chart on page 3. The Director oversees a staff of 12 employees, divided between Rankin Inlet and Iqaluit, with the addition of a roster of five contract site liquor enforcement inspectors.

Table 1. Nunavut's Liquor Restriction Systems

The *Liquor Act* provides Nunavummiut with a ranked liquor restriction structure based on four systems, ranging from standard access to total exclusion. Communities choose their appropriate system by plebiscite. Described under section 48.2 of the Act these systems are:

1. An unrestricted system in which the community is subject only to the general liquor laws of Nunavut;
2. A restricted quantities system in which, in addition to the general liquor laws, the quantity of liquor that a person may purchase is limited;
3. A committee system, in which a locally elected alcohol education committee decides:
   - who may consume, possess, purchase or transport liquor in the settlement, municipality or area,
   - who may import liquor into the settlement, municipality or area under this Act,
   - the amount of liquor that a person may possess, purchase, transport or import in the settlement, municipality or area,
   - who may apply for a wine permit in the settlement, municipality or area and the amount of wine that a person may apply to make, and
   - who may brew beer for personal or family consumption in the settlement, municipality or area and the amount of beer that a person may brew;
4. A prohibition system, which prohibits the consumption, possession, purchase, sale or transport of liquor within the settlement, municipality or area.

With its headquarters in Rankin Inlet, the Commission manages its retail and wholesale business through two distribution warehouses, one in Rankin Inlet with a capacity of 601 m^2 and the other in Iqaluit with a capacity of 603m^2. The Commission also oversees three permit agent offices, two on contract in Cambridge Bay and Kugluktuk, also a third being operated out of the Liquor Enforcement offices in Iqaluit. The Permit Agent Offices provide for a fee, import permits to allow individuals to bring in liquor from outside Nunavut.

LIQUOR RETAILING IN THE TERRITORY

Nunavut's geographical and infrastructural challenges make Liquor Retailing in the Territory very unconventional in the Canadian context. With a total population of approximately 30,000 people, the major challenge for Liquor Retailing in

Nunavut is the need to service a very limited market, connected only by air and limited seasonal sea access, and spread out over a fifth of Canada's land mass. Among the many characteristics that set Nunavut's liquor distribution system apart from other jurisdictions in Canada, is its central processing structure.

The Commission does not operate any liquor stores and all liquor orders are processed through the Commission's headquarters in Rankin Inlet and distributed via air cargo from either of the Commission's warehouses. Licensed outlets are the exception, as the sheer volume of their purchases requires that they be picked up at the closest Commission warehouse.

To take advantage of the Government of Nunavut's greater purchasing power, the Commission's entire liquor inventory is purchased on behalf of the Commission by the Department of Community and Government Services' Procurement Division.

While every effort is made to maximize warehouse space and accommodate as much inventory as possible through sealift, capacity issues with the Iqaluit warehouse, and the higher demand for liquor in the Territory's capital, necessitate a small air cargo resupply each spring to supply license holders until the shipping season starts again in the summer.

As a matter of policy, the Procurement Division attempts to buy all products directly from breweries and distilleries where possible. Due to small order volumes, some products are purchased through the Société des Alcools du Québec (SAQ) or the Liquor Control Board of Ontario (LCBO).

The Nunavut Liquor Commission uses a flat rate per litre mark-up in the pricing of liquor products. An administration fee of $0.27 per litre is also applied.
Current mark-ups per litre are as follows:

Spirits	$ 18.06
Wine	$ 5.82
Coolers	$ 1.45
Beer	$ 2.09

The Commission's necessary reliance on air cargo for the distribution of liquor orders means that liquor purchases in Nunavut are faced with logistical considerations and additional freight and marshalling costs not commonly experienced across Canada.

One logistical hurdle concerns the payments of liquor orders through the Commission. At the present time certified money instruments that include Money Orders, Northern Store money transfers, certified cheque, bank draft, or direct deposit to the Commission's bank account are all accepted as payment vehicles.

The Nunavut Liquor Commission also accepts credit cards (VISA and MASTERCARD) for product payment, and residents of Iqaluit and Rankin Inlet are able to use their debit cards for product payment. Once verified payment has

been received, the Liquor Commission ensures the product order is selected, boxed, and delivered to the airlines for delivery to its destination.

Over and above the product price, there is an additional charge for handling and local cartage of $10.00 (plus GST) per order, and a bottle deposit return fee. The shipment is then sent to the customer who is responsible for the freight costs charged by the airlines and takes responsibility for its safe arrival. Freight costs vary, depending on distance, community, and carrier used.

With Ottawa the only destination serviced daily by either of the major airlines flying in Nunavut and the other communities averaging between two or three flights a week, flight schedule structures serving Nunavut impose a de facto waiting period on all liquor purchases in the Territory (Licensees and holders of Special Occasion Permits excepted).

To ensure parity amongst all communities, Iqaluit residents must purchase their alcohol from the Rankin Inlet warehouse or outside the Territory, and conversely Rankin Inlet residents must purchase their alcohol from Iqaluit or outside Nunavut. All other eligible residents of Nunavut may place their order at either facility. This measure also ensures there are no direct sales of liquor to the public anywhere in Nunavut, except in licensed establishments.

Nunavummiut may purchase liquor with or without an import permit, which allows them a wider range of options for both selection and price. Should they choose to import their liquor from outside the territory, individuals must purchase an import permit from one of the four permit agent offices in Cambridge Bay, Kugluktuk, Rankin Inlet or Iqaluit. Given the added costs of cargo, this will continue to remain a viable option for most residents living in unrestricted communities and communities under committee system.

The presence of a permit agent office in Cambridge Bay is directly linked to the proximity of the Yellowknife, NWT, liquor stores which are closer and more convenient than either Rankin Inlet or Iqaluit. The permit agent locations in Rankin Inlet and Iqaluit also speak to the demand for imported liquor as an alternate purchasing source.

An import permit is required to import quantities greater than 1,140 ml of spirits or wine or 4,260ml of beer (twelve 355 ml containers). The current import permit fee structure is as follows:

Import Permit Fees	
Spirits	$3.75 per litre
Wine	$2.00 per litre
Coolers	$0.59 per litre
Beer	$0.56 per litre

Nunavummiut wishing to purchase liquor without an import permit can do so from either the Iqaluit Liquor Warehouse or the Rankin Inlet Liquor Warehouse. The procedures vary depending on where the individual lives. There can be no liquor sales to residents living in a prohibited community.

In communities governed by an Alcohol Education Committee (AEC), individuals apply to their community's AEC to seek approval to bring liquor into the community. The AEC may place restrictions on the purchase or even deny the application. Once an individual has obtained permission from the community AEC (AEC faxes approved sheets listing individuals to the Liquor Commission), an order may be placed.

One final aspect of liquor retailing in Nunavut is the Commission's effort at encouraging recycling in the territory through container deposits. The Commission places a container deposit on all liquor purchases made, bottle, can, or other and is prepared to accept returned empty liquor containers at any established recycling centre. Currently, however, container return centres only exist in Iqaluit and Rankin Inlet. The Commission charges $0.29 for bottles and $0.14 per can and gives back $0.25 per bottle and $0.10 per can.

Table 2. Breakdown of communities by their chosen systems:

Unrestricted System	Committee System	Prohibition System
Bathurst Inlet	Arctic Bay	Arviat
Grise Fiord	Baker Lake	Coral Harbour
Iqaluit	Cambridge Bay	Gjoa Haven
Rankin Inlet	Cape Dorset	Kugaaruk
Taloyoak	Chesterfield Inlet	Pangnirtung
	Clyde River	Sanikiluaq
	Hall Beach	Kimmirut
	Igloolik	
	Kugluktuk	
	Pond Inlet	
	Qikiqtarjuaq	
	Repulse Bay	
	Resolute Bay	
	Whale Cove	

MANAGEMENT DISCUSSION AND ANALYSIS & UNAUDITED SCHEDULES

Fiscal 2007-2008 was the Nunavut Liquor Commission's third full year of operations, since taking over responsibility for the public agency from the Government of the Northwest Territories in October of 2004. The Commission's functions had been managed by the NWT Liquor Commission under a service agreement since 1999.

Overall, the Commission sold 606,098 liters of alcohol, in Nunavut worth $4.8 Million. Below is a chart illustrating a breakdown of Commission sales by category of liquor:

	2007-2008		2006-2007		Change vs 2006-2007	
	Litres	$000s	Litres	$000s	Litres	$000s
Spirits	45,063	1,384	42,120	1,486	2,943	(102)
Wine	25,849	358	21,518	365	4,331	(7)
Cooler	5,588	40	10,111	82	(4,523)	(42)
Beer	529,598	3,020	455,055	2,776	74,543	244
Total	606,098	4,802	528,804	4,709	77,294	93

Warehouse Sales	Iqaluit		Rankin Inlet		Total		Change
Litres	2007-2008	2006-2007	2007-2008	2006-2007	2007-2008	2006-2007	
Spirits	41,007	30,287	4,056	11,833	45,063	42,120	2,943
Wine	25,590	18,314	259	3,204	25,849	21,518	4,331
Cooler	4,862	9,323	726	788	5,588	10,111	(4,523)
Beer	497,822	434,109	31,776	20,946	529,598	455,055	74,543
Total	569,281	492,033	36,817	36,771	606,098	528,804	77,294

Warehouse Sales ($'s)	Iqaluit		Rankin Inlet		Total		Change
	2007-2008	2006-2007	2007-2008	2006-2007	2007-2008	2006-2007	
	$	$	$	$	$	$	$
Spirits	1,073,600	1,088,943	310,056	396,650	1,383,656	1,485,593	(101,937)
Wine	345,243	296,585	12,435	68,807	357,678	365,392	(7,714)
Cooler	38,735	75,613	1,045	6,599	39,780	82,212	(42,432)
Beer	2,974,037	2,631,167	46,482	144,636	3,020,519	2,775,803	244,716
Total	4,431,615	4,092,308	370,018	616,692	4,801,633	4,709,000	92,633

Liquor Enforcement and Inspections generated a total of $625,900 in revenue. This is broken out by $465,282 in "Import Permit Fee's" and $160,618 in "License Renewal Fee's and Special Permits".

	2007-2008	2006-2007	Change
	$	$	$
Import Fees	465,282	422,971	42,311
License & SOP	160,618	159,690	928
Total	625,900	582,661	43,239

As the Commission gets better acquainted with the full extent of its responsibilities, functions and processes, Commission staffs are challenged daily with a number of issues of varying degrees of complexity. Some issues are systemic in nature and require long term solutions in the form of fundamental changes to the Commission's business process.

For example, warehouse capacity in Iqaluit is consistently insufficient requiring a costly annual spring airlift resupply. While a new, expanded, facility would be one solution to the problem, such a capital expenditure must fit with the Government of Nunavut's overall capital expenditure planning process, imposing by consequence a long term approach to the problem. Other issues are the result of normal growing pains experienced by young organizations and usually involve a significant engagement of physical and human resources towards determining best practices in any given area of operations.

Examples of the types of operational areas currently being developed by Commission staff are: finding soft ways to increase warehousing capacity, through better layouts and shipping methods, determining suitable purchasing procedures for the Commission's inventory, and finding ways to reduce the degree of bureaucratic red tape and moderate the impact of air freight charges on the Commission's customers. Addressing these types of issues is feasible in the short term as they represent the kind of obstacles normally encountered in the establishment of enterprise. However, they also represent real costs.

As a result, while gross sales remained relatively constant, with an increase of $92,633 between 2006-2007 and 2007-2008, the Gross Margin percentage increase by 5.0%, which meant an income increase of $297,871 in the Commission's Net Income.

The sealift order which is placed during the winter for the following spring sealift is calculated based on current inventory levels, prior year sealift received, historical sales history, projected sales for following year and input from individual customers and licensees. In addition the capacity of the warehouses in Rankin and Iqaluit is also a factor in the estimated order.

NUNAVUT LIQUOR COMMISSION

Rankin Inlet, NU

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2008

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008

INDEX

	Page
MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING	15
AUDITOR'S REPORT	16
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheet	17
Consolidated Statement of Operations and Comprehensive Income	18
Consolidated Statement of Amoun Due to the Government of Nunavut	19
Consolidated Statement of Cash Fows	20
Notes to the Consolidated Financial Statements	21 - 29
Schedule of Income and Expenses	
- Nunavut Liquor Commission	30
- Nunavut Liquor Enforcement and Inspections Division	31

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of these consolidated financial statements for the Nunavut Liquor Commission and related information contained in the Annual Report are the responsibility of the management of the Nunavut Liquor Commission.

The accompanying consolidated financial statements were prepared by management in conformity with Canadian generally accepted accounting principles. Furthermore, the consolidated financial statements include some amounts, such as amortization of assets and the provision of employee future benefits that are based on management's best estimates and judgment.

The management of the Nunavut Liquor Commission fulfills its accounting and reporting responsibilities for the Nunavut Liquor Commission by maintaining systems of financial management and internal control. These systems are continually enhanced and modified to provide accurate information, to safeguard and control assets and to ensure that all transactions are in accordance with the *Liquor Act* and the *Financial Administration Act*.

The Commission's management recognizes its responsibility for conducting the affairs of the Nunavut Liquor Commission in accordance with the requirements of applicable laws and sound business principles and for maintaining standards of conduct that are appropriate for a territorial statutory body.

The Auditor General of Canada received a mandate, beginning for the fiscal year ended March 31, 2007 to conduct an annual audit of the consolidated financial statements in order to express an opinion as to whether the consolidated financial statements present fairly, in all material respects, the financial position, results of operations and cash flows for the year. During the course of the audit, she also examines transactions that have come to her notice, to ensure that they are, in all significant respects, within the statutory powers of the Nunavut Liquor Commission.

Chris D'Arcy
Assistant Deputy Minister
Policy and Planning
Department of Finance

Peter Ma, CA
Deputy Minister of Finance, and
Interim Comptroller General

April 27, 2009

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Finance Government of Nunavut

I have audited the consolidated balance sheet of the Nunavut Liquor Commission as at March 31, 2008 and the consolidated statements of operations and comprehensive income, amount due to the Government of Nunavut and cash flows for the year then ended. These financial statements are the responsibility of management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Nunavut Liquor Commission as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act* of Nunavut, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, except for the failure to meet the deadline for submitting its annual report as described in the following paragraph, proper books of account have been kept by the Nunavut Liquor Commission and the consolidated financial statements are in agreement therewith. In addition, the transactions of the Nunavut Liquor Commission that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part IX of the *Financial Administration Act* of Nunavut and regulations, the *Liquor Act* (Nunavut) and regulations and the by-laws of the Nunavut Liquor Commission.

Under section 100(1) of the *Financial Administration Act* of Nunavut, every public agency is required to submit its annual report to the appropriate Minister no later than ninety days after the end of its financial year. The Nunavut Liquor Commission did not meet this deadline.

John Apt, CA
Principal
for the Auditor General of Canada

Ottawa, Canada
27 April 2008

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED BALANCE SHEET

As at March 31,	2008	2007
ASSETS		
Current Assets		
Cash	$ 250	$ 250
Accounts receivable	93,267	54,022
Inventories (note 5)	886,111	1,198,520
Prepaid expenses	23,460	23,460
	1,003,088	1,276,252
Property and Equipment (note 6)	66,175	70,952
	$ 1,069,263	$ 1,347,204
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 311,167	$ 630,842
Employee future benefits (note 7)	38,827	23,885
Bottle deposit outstanding	17,560	17,139
Deferred revenue	29,191	26,306
Due to Government of Nunavut	672,518	649,032
	$ 1,069,263	$ 1,347,204

Commitments (note 8)

Approved:

Chris D'Arcy
Assistant Deputy Minister
Policy and Planning
Department of Finance

Peter Ma, CA
Deputy Minister of Finance, and
Interim Comptroller General

The accompanying notes and schedules are an integral part of these consolidated financial statements.

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended March 31,	2008	2007
Sales	$ 4,801,633	$ 4,709,000
Cost of Sales	2,232,776	2,438,014
Gross Margin	2,568,857	2,270,986
Other Income		
Import fees	465,282	422,971
Licence, fees and permits	160,618	159,690
	3,194,757	2,853,647
Expenses		
Advertising and promotion	32	2,312
Amortization	20,240	39,255
Bank charges and interest	17,328	17,258
Bottle deposits refund	152,679	140,915
Communications	9,723	19,276
Computer services	3,576	1,964
Contractor fees	145,831	132,968
Honoraria	8,275	-
Office	81,727	35,378
Professional fees	7,659	1,983
Penalty and interests	10,236	-
Rent	401,516	416,718
Repairs and maintenance	32,182	44,112
Salaries and benefits	1,348,122	1,225,153
Travel	77,358	34,303
Utilities	71,874	63,244
	2,389,358	2,174,839
Net Income from Continuing Operations	805,399	678,808
Net Loss from Discontinued Operations (note 10)	-	(233,856)
Net Income and Comprehensive Income	$ 805,399	$ 444,952

The accompanying notes and schedules are an integral part of these consolidated financial statements.

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF AMOUNT DUE TO THE GOVERNMENT OF NUNAVUT

For the year ended March 31,	2008	2007
Balance, beginning of year	$ 649,032	$ 707,585
Net income for the year	805,399	444,952
Net transfer of funds to the Government of Nunavut	(781,913)	(503,505)
Balance, end of year	$ 672,518	$ 649,032

The accompanying notes and schedules are an integral part of these consolidated financial statements.

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31,	2008	2007
Cash Flows from Operating Activities		
Cash receipts from customers	$ 5,391,173	$ 5,273,814
Cash paid to suppliers and employees	(4,593,797)	(4,761,298)
Cash transferred to the Government of Nunavut	(781,913)	(503,505)
Cash Provided by Operating Activities	15,463	9,011
Cash Flows from Investing Activities		
Purchase of furniture and equipment	(15,463)	(9,011)
Cash Used in Investing Activities	(15,463)	(9,011)
Net Increase / (Decrease) in Cash	-	-
Cash, beginning of year	250	250
Cash, end of year	$ 250	$ 250

NUNAVUT LIQUOR COMMISSION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

1. Authority and Operations

The Nunavut Liquor Commission (NLC) - The Commission is established under Part II of the *Liquor Act (Nunavut)*.

The Commission is responsible for the operation of the liquor warehouses and the purchase and sale of liquor in Nunavut through the Liquor Revolving Fund of the Government of Nunavut. The Commission is authorized by the Legislative Assembly to receive free working capital advances from time to time not exceeding $6,500,000 to finance its operations. The NLC did not request any working capital advances for the 2007 - 08 fiscal year, as the Government of Nunavut currently covers all of the expenses of the Nunavut Liquor Commission.

The Nunavut Liquor Enforcement and Inspections Division is responsible for ensuring that all distribution of liquor products is authorized by liquor licenses and special occasion liquor permits issued under the *Liquor Act (Nunavut)*.

The Commission, in addition to its regular responsibilities, manages, directs and provides financial services to, and on behalf of, the Nunavut Liquor Enforcement and Inspections Division. As such, the Commission controls the aforementioned group. As a result of this control, the Nunavut Liquor Enforcement and Inspections Division is consolidated into the Nunavut Liquor Commission in preparing these consolidated financial statements. In addition, there are no related party transactions, except with the Government of Nunavut.

The attached Schedules of Income and Expenses segregate the financial results of the operations of the Nunavut Liquor Commission and the Nunavut Liquor Enforcement and Inspections Division on a stand-alone basis.

2. Significant Accounting Policies

(a) Consolidated Financial Statements

NLC's accounting policies are guided by the Canadian Institute of Chartered Accountants' Handbook. As such, the consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Basis of Consolidation

The consolidated financial statements include the assets and liabilities and results of operations of the Nunavut Liquor Commission and the Nunavut Liquor Enforcement and Inspections Division, over which the Nunavut Liquor Commission exhibits control by managing and directing the Nunavut Liquor Enforcement and Inspections Division. There were no inter-entity balances and transactions which had to be eliminated in determining the consolidated figures.

2. Significant Accounting Policies (Continued)

(c) Measurement Uncertainty

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires the use of estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements. By their nature, these estimates are subject to measurement uncertainty. The effect on the consolidated financial statements of changes to such estimates and assumptions in future periods could be significant, although, at the time of preparation of these consolidated financial statements, management believes the estimates and assumptions to be reasonable. Significant management estimates include the liability for bottle deposit outstanding, services received without charge, the provision for employee future benefits and the useful lives of equipment.

(d) Cash

A small cash float is maintained by NLC. All sales and other cash receipts of NLC are deposited to the Government of Nunavut Consolidated Revenue Fund while all expenses of NLC are paid directly by the Government of Nunavut through the Consolidated Revenue Fund.

(e) Inventories

Inventories consist of alcohol products valued at the lower of cost or net realizable value on a first-in, first-out basis.

(f) Accounts Receivable

Accounts receivable are valued at the lower cost and net recoverable value. Valuation allowances, if necessary, are recorded based on all circumstances in existence at the balance sheet date that are known at the date these consolidated financial statements are prepared.

(g) Property and Equipment

Equipment is initially recorded at cost, and is subsequently amortized to expense. Amortization expense is recognized on a declining balance basis over the estimated useful life of the assets. In the year of purchase, amortization is applied at half the normal rate. The rates are as follows:

Computer hardware	30%
Computer software	100%
Furniture and equipment	20%

2. Significant Accounting Policies (Continued)

(h) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are recorded as incurred. Annual, in lieu and optional leave liabilities have been included in accrued liabilities.

(i) Bottle Deposit Liability

The bottle deposit liability is estimated based on the last three months of sales, to allow time for licensees and clients to return recyclables for refund.

(j) Deferred Revenue

Revenues received in advance of goods being provided or services being performed are deferred. The amount is subsequently taken into income when the related goods are provided, or services are performed.

(k) Employee Future Benefits

Non-pension Benefits

Under the conditions of employment, eligible employees may earn non-pension benefits for severance, retirement and removal based on years of service. The benefits are paid upon resignation, retirement or death of an employee. The expected cost of providing these benefits is recognized as employees render service and has been determined based on management's assumptions and best estimates. The NLC provides severance, retirement and removal benefits to eligible employees based on years of service, final salary and community of residence.

Pension Benefits

Eligible employees of the NLC participate in the Public Service Pension Plan administered by the Government of Canada. The employees and NLC contribute to the cost of the Plan. The NLC's contributions to the Plan reflect the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions and may change from time to time depending on the experience of the Plan. The NLC contributed at a rate of 2.02 times the employees contribution for the calendar year of 2008 (2.14 times for the calendar year of 2007). These contributions are charged to expenditures on a current year basis, and represent the total pension obligation of the NLC. NLC is not obligated under present legislation to make contributions to actuarial deficiencies of the Public Service Pension Plan.

2. Significant Accounting Policies (Continued)

(l) Revenue Recognition

Revenue from sales of liquor and import fees are recorded when the customer places their order, it has been paid in full and the products have been shipped.

Revenue from licence fees and permits are recognized on a straight-line basis over the term of the licence. Licences do not exceed one year.

(m) Expenses

Expenses are recorded on an accrual basis. These expenses are paid directly by the Government of Nunavut through the Consolidated Revenue Fund.

(n) Financial Instruments

The NLC undertakes transactions related to financial assets and financial liabilities in the normal course of business. Refers to note 3(a).

(o) Services Provided Without Charge

Audit services are provided without charge to the NLC. No amount has been recognized in these financial statements in respect to the services provided.

3. Adoption of New Accounting Standards

On April 1, 2007, NLC adopted the following new *Canadian Institute of Chartered Accountants (CICA) Accounting Handbook Sections: Section 1530 - Comprehensive Income; Section 3855 - Financial Instruments – Recognition and Measurement; and Section 3861 - Financial Instruments – Disclosure and Presentation.* These sections provide standards for recognition, measurement, disclosure and presentation of other comprehensive income, equity, financial assets, financial liabilities and non-financial derivatives. The adoption of these new standards has not resulted in the restatement of any comparative information. As at April 1, 2007, no transitional adjustments were required from adopting these new sections. The principal changes in the accounting resulting from the adoption of these new sections are described below.

(a) Financial Instruments

Section 3855 – Financial Instruments – Recognition and Measurement, establishes the criteria for recognition, derecognition, measurement and classification of financial instruments. Prior to the adoption of the new standards, all financial assets and financial liabilities were recorded at either cost or amortized cost. Under the new standards, all financial instruments are classified into one of the following categories: financial assets as held-for-trading, held-to-maturity, available-for-sale, or as loans and receivables, and financial liabilities as held-for-trading or as other financial liabilities. In accordance with the transitional provisions, upon initial recognition, financial assets and financial liabilities are required to be measured at their fair value except for certain related party transactions which are required to be measured at the carrying amount or exchange amount.

3. Adoption of New Accounting Standards (Continued)

(a) Financial Instruments (continued)

Subsequent measurement and changes in fair value will depend on their initial classification or designation which depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition. Held-for-trading financial instruments are subsequently measured at fair value and all gains and losses are recognized in net income in the period in which they arise. Available-for-sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income until the instrument is derecognized or impaired at which time the amounts would be recognized in net income. Financial assets held-to-maturity, loans and receivables, and other liabilities are measured at amortized cost.

As of April 1, 2007, NLC has elected the following Balance Sheet classifications with respect to its financial assets and financial liabilities:

- Cash is classified as "assets held-for-trading" and is subsequently measured at fair value with gains and losses arising from changes in the fair value recognized in net income in the period in which they arise. The estimated fair value of cash is assumed to be equal to its carrying amount.

- Accounts receivable are classified as "loans and receivables" and subsequently measured at amortized cost using the effective interest method. The amortized cost using the effective interest method approximates their fair values due to the short term nature.

- Accounts payable and accrued liabilities, and due to the Government of Nunavut are classified as "other financial liabilities" and are subsequently measured at amortized cost using the effective interest method. At inception, the estimated fair values of accounts payable and accrued liabilities are assumed to approximate their carrying amounts. The amounts due to the Government of Nunavut which are considered related party transactions are measured at their carrying value or exchange amounts.

The NLC has no financial instruments which have significant terms and conditions which may affect amount, timing and the certainty of future cash flows.

The NLC has no assets pledged.

The estimated fair values of these financial instruments are approximated by their carrying amounts due to the relatively short period to maturity of these instruments. Unless otherwise noted, it is management's opinion that NLC is not exposed to significant price, credit or liquidity risk from financial instruments.

3. Adoption of New Accounting Standards (Continued)

(b) Comprehensive Income

Section 1530 - Comprehensive Income - describes reporting and disclosure requirements with respect to comprehensive income and its components. Comprehensive income is composed of the NLC's net income and other comprehensive income, and requires certain unrealized gains and losses resulting from changes in fair value of certain financial instruments, that would otherwise be recorded as part of net income, to be presented in other comprehensive income until such a time as it is considered appropriate for them to be recognized in net income. The adoption of this section had no impact on the NLC, as there have been no transactions resulting in other comprehensive income.

4. Future Accounting Changes

The Canadian Institute of Chartered Accountants ("CICA") issued five new accounting standards which will be in effect for NLC's 2008-2009 fiscal year.

Section 1400 – General Standards of Financial Statement Preparation – This standard includes requirements to assess and disclose NLC's ability to continue as a going concern. The adoption of this new standard is not expected to have a significant impact on NLC's financial results.

Section 1535 – Capital Disclosure – The Canadian Institute of Chartered Accounts ("CICA") Handbook requires the NLC to disclose information that enables users of its financial statements to evaluate NLC's objectives, policies and processes for managing capital, quantitative information about what the NLC regards as capital and disclosures of any externally imposed capital requirements, as well as the consequences for non-compliance. Management has not yet fully assessed the impact of this change on its financial statements.

Section 3031 – Inventory – The Canadian Institute of Chartered Accounts ("CICA") Handbook has replaced *Section 3030 - Inventories*, and this new section provides changes to the measurement and more extensive guidance on the determination of cost, narrows permitted cost formulas, requires impairment testing, and expands the disclosure requirements to increase transparency. Management has not yet fully assessed the impact of this change on its financial statements.

Section 3862 – Financial Instruments – Disclosure, The Canadian Institute of Chartered Accounts ("CICA") Handbook requires disclosures that enable users to evaluate the significance of financial instruments on the NLC's financial position and performance; the nature and extent of risks arising from financial instruments to which the NLC is exposed during the period and at the balance sheet date; and how the NLC manages those risks. Management has not yet fully assessed the impact of this change on its financial statements.

4. Future Accounting Changes (Continued)

Section 3863 – Financial Instruments – Presentation, The Canadian Institute of Chartered Accounts ("CICA") Handbook establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, gains and losses, and circumstances in which financial assets and financial liabilities are offset. Management has not yet fully assessed the impact of this change on its financial statements.

Public Sector Accounting (PSA) – In December 2009, the *Public Sector Accounting Board (PSAB)* issued an amendment to the Introduction to Public Sector Accounting Standards of the PSA Handbook. This amendment eliminated the Government Business Type Organizations (GBTO) classification and entities currently classified as GBTO are required to re-assess their classification.

Under the revised introduction, the NLC is classified as an Other Government Organization (OGO). As a OGO, NLC has determined the most appropriate basis of accounting to meet the needs of the users of its financial statements to be the standards issued by the *Public Sector Accounting Board*. NLC will adopt the standards issued by the *Public Sector Accounting Board* for its fiscal year beginning April 1, 2011. NLC is currently evaluating the impact of the adoption of these standards.

5. Inventories

	2008	2007
Spirits	$ 188,849	$ 323,689
Wine	87,920	137,742
Beer	603,070	721,028
Coolers and ciders	6,272	16,061
	$ 886,111	$ 1,198,520

6. Property and Equipment

	Cost	Accumulated Amortization	Net Book Value 2008	Net Book Value 2007
Computer hardware	$ 29,679	$ 23,388	$ 6,291	$ 8,988
Computer software	50,777	50,777	-	4,506
Furniture and equipment	97,638	37,754	59,884	57,458
	$ 178,094	$ 111,919	$ 66,175	$ 70,952

7. Employee Future Benefits

Non-pension Benefits

NLC provides non-pension benefits to its employees for severance and removal costs. No employees at the current time meet the criteria for severance and removal costs.

Pension Plan

NLC and all eligible employees contribute to the Public Service Pension Plan (PSPP). This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. Contributions during the year were as follows:

	2008	2007
Employer's contributions	$ 86,323	$ 92,119
Employee's contributions	41,008	43,046

The Employee Future Benefits accrued by the NLC for the current year relate to accrued leave benefits. This has been accrued in accordance Article 17 of the Collective Agreement between the Nunavut Employees Union and the Government of Nunavut.

8. Commitments

There is a ten year lease effective April 1, 2004, expiring April 1, 2014, for warehouse and office premises in Rankin Inlet. A five year lease agreement, effective April 1, 2007, and expiring April 1, 2012, for the liquor warehouse in Iqaluit valued at $120,000 per year is also in place. The minimum annual lease payments (which do not include any amount relating to the lease commitment for the liquor warehouse in Iqaluit, as per note 9) are as follows:

Fiscal year ending March 31	Total
2009	$ 541,937
2010	281,516
2011	281,516
2012	281,516
2013 - 2014	563,033
	$ 1,949,518

9. Related Party Transactions

The NLC is related in terms of common ownership to all of the Government of Nunavut created departments, agencies and Crown corporations. The NLC enters into transactions with these entities in the normal course of business at normal trade terms. All sums collected by the NLC are deposited directly into a Government bank account, and the Government of Nunavut pays for all of the expenses of the NLC. Expenses include the following services provided by the Government of Nunavut:

	2008	2007
Communications	$ 9,538	$ 15,000
Rent (note 8)	120,000	120,000
Repairs and maintenance	24,251	35,114
Utilities	24,958	24,346
	$ 178,747	$ 194,460

10. Discontinued Operations

On April 1, 2007, the NLC transferred the responsibility of administering the financial affairs of the Nunavut Liquor Licensing Board to the Department of Justice of the Government of Nunavut. This effectively eliminated the operations and cash flows of the Nunavut Liquor Licensing Board from the NLC. Accordingly, the statement of operations was reclassified to present the income and expenses of the Nunavut Liquor Licensing Board as discontinued operations for all periods presented.

The net loss of $233,856 presented as discontinued operations is composed of the following:

Contractor Fees	$ 62,629
Honoraria	43,150
Office	2,541
Travel	125,536
Net loss from discontinued operations	$ 233,856

The Nunavut Liquor Licensing Board did not have any related revenues, assets or liabilities.

11. Comparative Figures

Certain figures presented for comparative purposes have been reclassified to conform with the current year's presentation.

NUNAVUT LIQUOR COMMISSION

SCHEDULE OF INCOME AND EXPENSES - NUNAVUT LIQUOR COMMISSION

For the year ended March 31,	2008	2007
Sales	$ 4,801,633	$ 4,709,000
Cost of Sales	2,232,776	2,438,014
Gross Margin	2,568,857	2,270,986
Other Income		
Import fees	-	-
Licence, fees and permits	-	-
	2,568,857	2,270,986
Expenses		
Advertising and promotion	32	37
Amortization	20,240	39,255
Bank charges and interest	17,328	17,258
Bottle deposits refund	152,679	140,915
Communication	9,723	15,090
Computer services	887	1,964
Contractor fees	11,422	12,160
Honoraria	9,275	-
Office	75,015	26,193
Professional fees	7,659	1,083
Penalty and interest	10,236	-
Rent	401,516	416,718
Repairs and maintenance	32,182	42,838
Salaries and benefits	1,064,165	979,018
Travel	56,816	23,054
Utilities	71,874	63,244
	1,941,049	1,778,827
Net Income	$ 627,808	$ 492,159

NUNAVUT LIQUOR COMMISSION

SCHEDULE OF INCOME AND EXPENSES - NUNAVUT LIQUOR ENFORCEMENT AND INSPECTIONS DIVISION

For the year ended March 31,	2008	2007
Sales	$ -	$ -
Cost of Sales	-	-
Gross Margin	-	-
Other Income		
Import fees	465,282	422,971
Licence, fees and permits	160,618	159,690
	625,900	582,661
Expenses		
Advertising and promotion	-	2,275
Amortization	-	-
Bank charges and interest	-	-
Bottle deposits refund	-	-
Communication	-	4,186
Computer services	2,689	-
Contractor fees	134,409	120,808
Honoraria	-	-
Office	6,712	9,185
Professional fees	-	900
Rent	-	-
Repairs and maintenance	-	1,274
Salaries and benefits	283,957	246,135
Travel	20,542	11,249
Utilities	-	-
	448,309	396,012
Net Income	$ 177,591	$ 186,649